FINANCING OF NATIONAL GOVERNMENT EXPENDITURES

1. What are the major sources of funds to finance the national budget?

The national budget is financed form the following fund sources: 1) revenues from both tax and non-tax sources; 2) borrowings from both domestic and foreign sources; and, 3) withdrawals from available cash balances

2. What are revenues and their major classifications?

Revenues refer to all cash inflows of the national government treasury which are collected to support government expenditures but do not increase the liability of the NG. Revenues consist of tax and non-tax collections.

3. What is a tax? What agencies are authorized to collect taxes?

A *tax* is a compulsory contribution mandated by law and exacted by the government for a public purpose. The major tax collecting agencies of the national government are the Bureau of Internal Revenue and the Bureau of Customs.

4. What are the major classes of tax revenues?

The major classes of tax revenue are: a) *taxes on income and profits*; b) *taxes on property*; c) *taxes on domestic goods and services*; d) *taxes on international trade and transactions*; and e) *other sources*.

Taxes on income and profits are imposed on all taxable income earned or received by a taxpayer, whether as an individual, as a partnership, or as a corporation, during a particular period of time, usually lasting one year.

Taxes on domestic goods and services are imposed on the use or sale of locally manufactured goods as well as local services availed of within the domestic territory.

Taxes on international trade and transactions include import and customs duties, and other international trade-related collections of the government.

Taxes on property are imposed on the ownership of weath or immovable property levied at regular intervals and on the transfer of real or personal property.

Other taxes primarily include collections from the motor vehicles tax, immigration tax and forest charges.

5. What are non-tax revenues?

Non-tax revenues refer to all other impositions or collections of the government in exchange for services rendered, assets conveyed, penalties imposed, etc.

6. What are the desirable features of a tax system?

A tax system should be revenue-productive; simple and easy to administer, equitable, and progressive.

7. What are the government's current efforts to improve tax collections?

The national government has continuously expended an all-out effort to strengthen its revenue-generating capability through legislative and administrative reforms.

Recently, the government came up with a comprehensive measure to overhaul the tax system to bring in badly needed revenues for the government.

Called the Comprehensive Tax Reform Program (CTRP), the new tax measure has three principal components, namely, a) income tax reform; b) excise tax reform; and, c) fiscal incentives reform.

The CTRP aims to widen the tax base, simplify the tax structure to minimize leakages, undeclared revenues, overstated deductions and corruption to make the system more elastic and easier to administer.

8. What is the privatization program?

The *privatization program* was launched by the government in 1987 pursuant to Proclamation No. 50 to sell non-performing assets (NPAs) of government financial institutions and government-owned and controlled corporations transferred to the national government. This program enables the NG to divest itself of assets that would be more productive in the hands of the private sector.

9. What are borrowings?

Borrowings refer to funds obtained from repayable sources, such as loans secured by the government from financial institutions and other sources, both domestic and foreign, to finance various government projects and activities.

10. What are domestic borrowings? What are foreign borrowings?

Domestic borrowings are funds obtained from sources within the country.

Domestic borrowings of the national government are usually made through the auction of treasury bills, notes and bonds to the public. Foreign borrowings, on the other hand, are funds obtained from sources outside the country, such as Asian Development Bank (ADB), International Bank for Reconstruction Development (IBRD), Overseas Economic Cooperation Fund (OECF), etc. Foreign borrowings can be obtained through loans secured from foreign financial institutions or through the flotation of government securities in the international market.

11. Why does the government borrow?

The government borrows from any of the following reasons:

- to finance national government deficits;
- to obtain foreign exchange;
- to secure financing at more favorable terms than the opportunity cost of revenues;
- to take advantage of benefits attached to the funds, e.g. technology; and,
- to balance the timing of resources with the project gestation and repayment of benefit

12. What are constructive cash receipts?

Constructive cash receipts are foreign loan proceeds in the form of goods and services for which no cash is remitted to the national treasury. Such goods or services have been paid directly by the lender to the supplier.

13. What are net borrowings?

Net borrowings refer to gross borrowing less debt amortization.

14. What liabilities are included under public debt?

Public debt includes obligations incurred by the government and all its branches, agencies and instrumentalities, including those of government monetary institutions. It consists of all claims against the government which may be payable in goods and services, but usually in cash, to foreign governments or individuals or to persons natural or juridical. Obligations maybe: 1) purely financial, i.e., loans or advances extended to the Philippine government, its branches, agencies and instrumentalities; 2) services rendered or goods delivered to the government for which certificates, notes or other evidence of indebtedness have been issued to the creditor; and 3) for external debt such as claims of foreign entities, securities held in trust, non-bonded debts and obligations of the Philippine government to the International Monetary Fund (IMF).

15. What is debt service?

Debt service refers to the sum of debt amortization and interest payments on foreign and domestic borrowings of the national government or the public sector.

Under the current system of budgeting, only interest payments are treated as part of the expenditure program because it represents a real expense item, i.e. the cost of borrowed funds, which should form part and parcel of cost of the items financed by the loan

Debt principal is treated as an off-budget item because it is merely a return of borrowed funds; hence it is reflected as a financial account.